



Update on Impact of Changes in FY 2010 Budget

**House Appropriations Committee
August 24, 2009**

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Direction from KHPA Board

- Refocus resources on core program operations
- Position the state for national health reform
- Help secure available ARRA (stimulus) funds for state initiatives in health information technology and exchange
- Complete transformation into an accountable, data-driven agency
- Maintain a broad health agenda
- Work closely with Governor and Cabinet agencies
- Solicit feedback from policymakers, i.e., the legislature

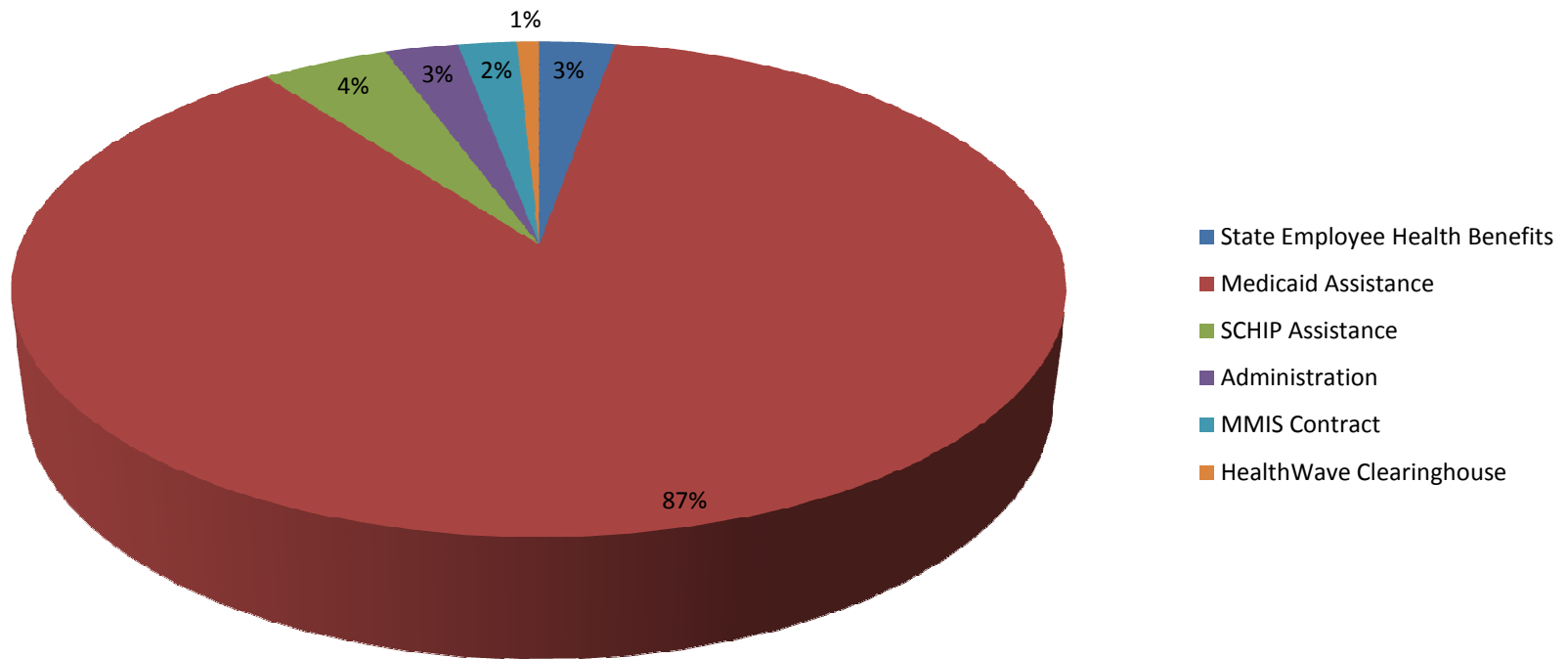


Brief Overview of KHPA's Budget

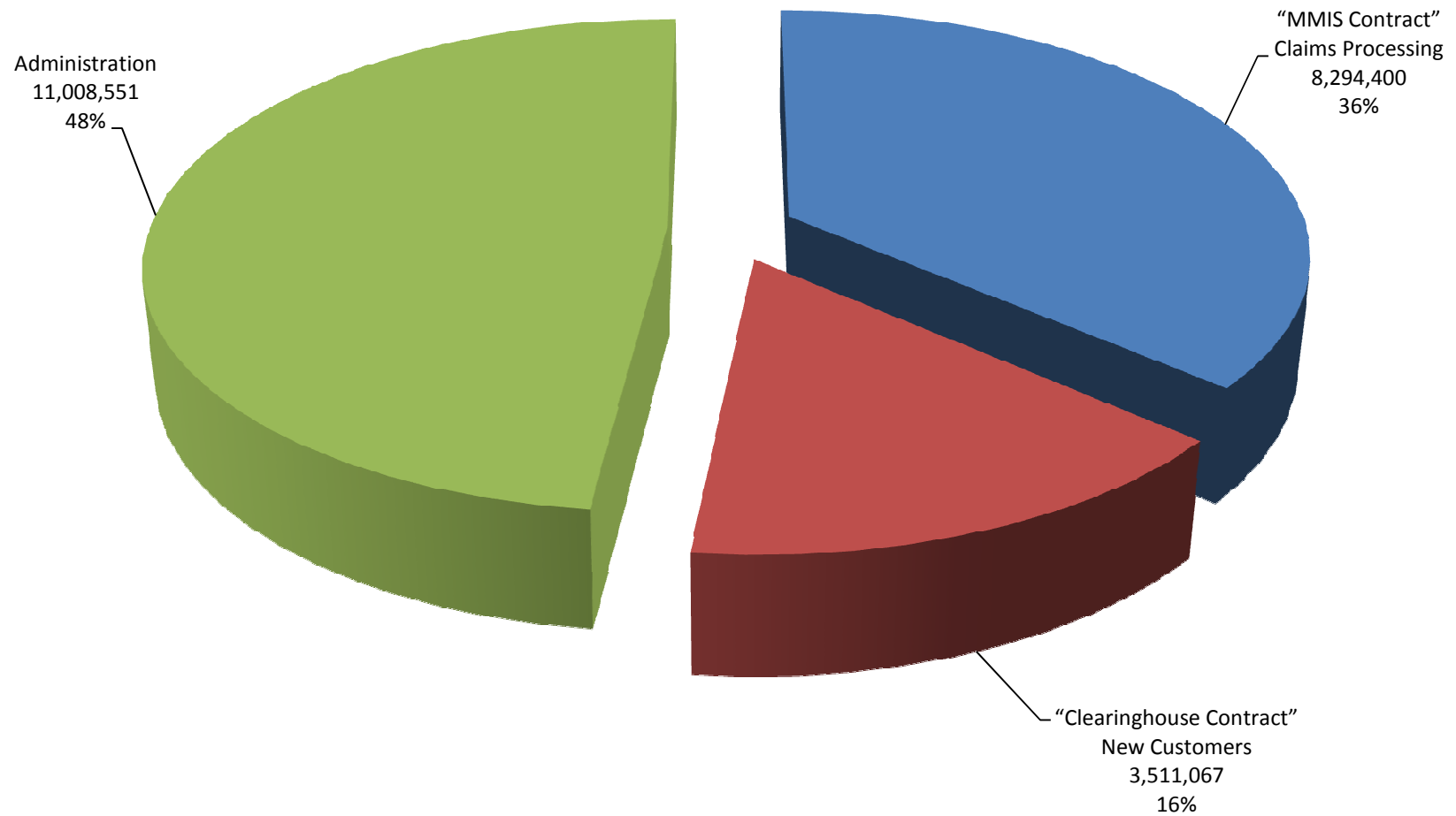
- **KHPA's FY 2009 budget was about \$2.6 billion**
 - \$1.36 billion is non-SGF funding for KHPA medical programs
 - \$800 million is federal funds passed through to other Medicaid service agencies (SRS, KDOA, JJA, KDHE)
 - \$450 million is SGF funding for services and operations
- **KHPA programs and operations are funded separately**
 - FY 2009 operational funding was \$23 million SGF
 - Caseload costs are about 20 times larger than operational costs
 - Caseload savings cannot be credited to cost-saving operations
 - The federal government matches Medicaid operations at 50-90%
 - Operational costs for the state employee plan are funded off-budget
- **KHPA FY 2010 budget reductions concentrated on operations**
 - Medicaid caseload protected due to Federal stimulus dollars
 - KHPA operational funding reduced 15.5% versus FY 2009

KHPA Total Budget

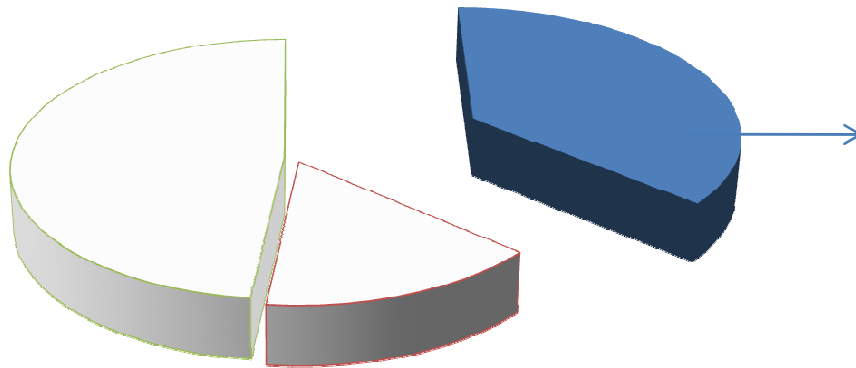
FY 2010 Approved Budget
excluding off budget and transfers



KHPA Operational Budget
Base = FY 2009 Budget: \$22,814,018 (SGF)

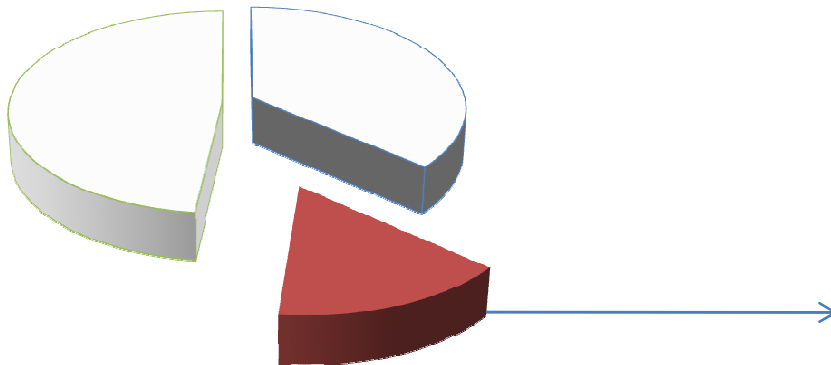


KHPA Functions at a Glance: Claims Processing (\$8.3 Million)



- Medicaid Management Information System (MMIS) - federal mandate: data processing system that manages claims and payments; assures compliance with state plan
- Surveillance Utilization Review Subsystem (SURS) - federal mandate: identifies waste, fraud and abuse
- Payment Error Rate Measurement (PERM) – federal mandate; assures program integrity
- Customer and Provider Service Call Centers: answer calls from providers, beneficiaries with billing, eligibility and other questions.
- FY 2009: Processing avg. 1.5 million claims per month
- Disbursing avg. \$197 million per month in payments to providers
- Call Centers handling 21,127 incoming calls per month
- Outsourced to independent contractor
- Most costs fixed: volume-based contract

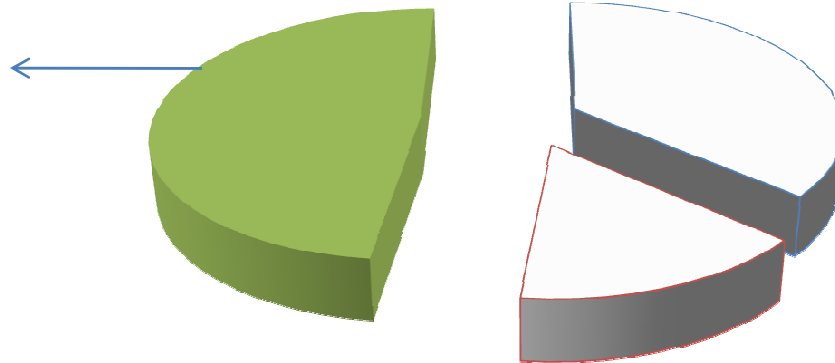
KHPA Functions at a Glance: Clearinghouse (\$3.5 Million)



- Processes Medicaid and SCHIP applications for coverage: federal mandate to process an application within 45 days
- Similar to a “sales” department in private sector
- Issues new policies
- Screens applicants for eligibility
- Unified application process: One application for family; screens for all eligible services
- Workload fluctuates with economy
- Majority of work outsourced
- FY 2009 – Receiving an average of 10,736 applications and reviews per-month
- ***Backlog of applications already growing as economy worsens***

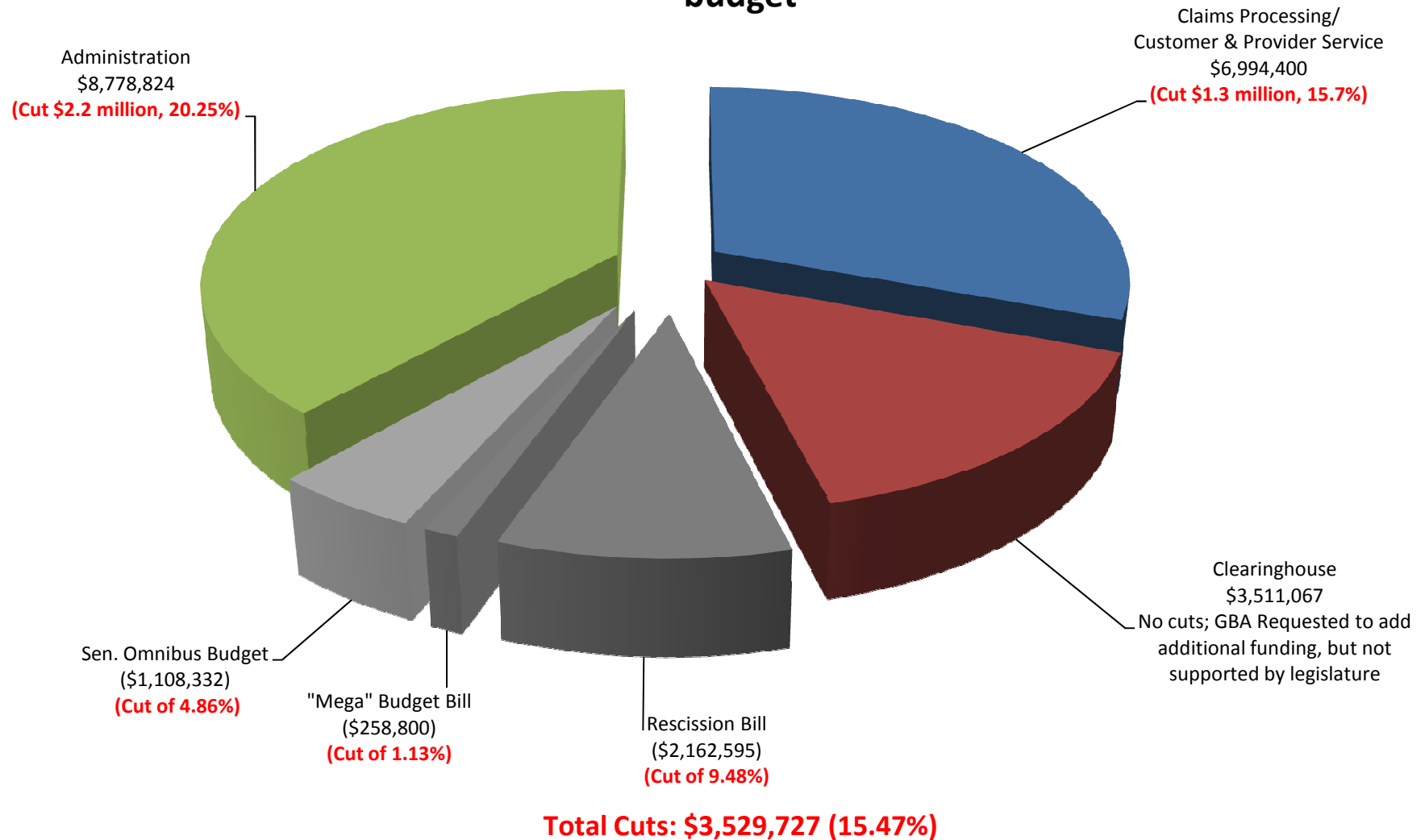
KHPA Functions at a Glance: Administration (\$11 Million)

- Finance and Operations: budget; accounting; financial reports; purchasing
- In-house eligibility and claims processing (required by federal law)
- Actuarial Analysis: data evaluation; risk assessment; long-range planning
- Program management: quality improvement; risk management; cost control
- Human Resources
- Information Technology
- Legal Services
- Governmental and Stakeholder Relations
- Communications/Public Relations
- Physical Plant: rent; utilities; equipment; supplies



KHPA Operational Budget

Distribution of FY 2010 Budget Cuts as compared to approved base budget

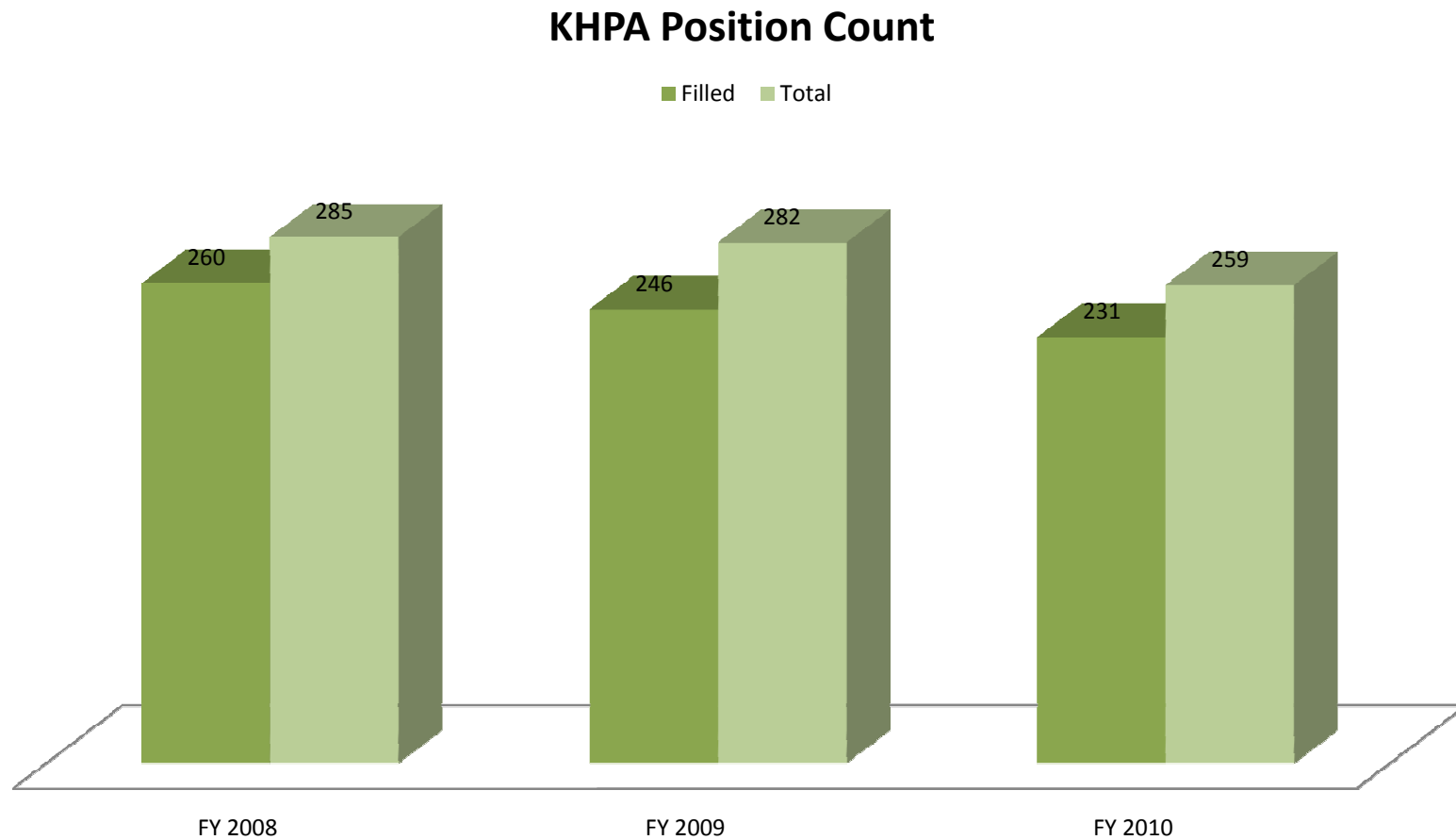




Summary of Agency Response to FY 2010 Budget Shortfall

- **Reduced internal operational costs by \$2.2 million SGF**
 - Eliminated contracts not directly related to program operation
 - Eliminated 14 positions in July 2009 that resulted in 13 staff layoffs
 - Cumulative staff reductions of 15% with unfilled vacancies
 - Eliminated policy division
 - Reduced executive positions from 5 to 4
- **Reduced contract Medicaid operations by \$1.3 million SGF**
 - Reductions in staffing at the Medicaid fiscal agent (EDS) of 42 FTEs
 - Key areas affected are in customer and provider services
- **Changes to the agency's structure and focus**
 - Eliminated or scaled back policy, communications, and outreach efforts
 - Maintain efforts to identify savings and efficiencies in program costs
 - Extending focus on data-driven efficiency to all KHPA programs
 - Restructured organization to emphasize efficiency and accountability

FTE Count for FY 2008, 2009, and 2010





Contractual Reductions

Contracts eliminated in FY 2009

- Enhanced care management pilot
- Community health record pilot
- Kansas Legal Services aid for Federal disability applicants
 - (contracting authority transferred to SRS in FY 2010)
- Kansas Health Online consumer portal for health information
- Oregon Health Sciences program for evidenced-based management of prescription drugs

Contract scheduled to terminate January 2010

- Kansas Foundation of Dentistry for the Handicapped



FY 2010 Governor's Allotments

- FY 2009 Caseload Savings (5,300,000)
- Expansions to Pregnant Women (524,000)
- Increased FMAP Rate (6,300,000)
- No impact on current services



Impact of Operational Cuts

- **Potentially More Than 30,000 People with Delayed Medicaid/SCHIP Applications by December 2009**
 - Tens of millions of dollars in uncompensated or foregone medical care, delayed payments, and foregone federal funding
 - Needed medical care delayed; negative health outcomes
 - Compliance with Federal deadlines for processing applications at risk
- **Approximately 40% Cut in Customer and Provider Service**
 - 42 FTE's laid off in July from the Medicaid fiscal agent, EDS (@ Forbes Field)
 - Affects 25,000 Medicaid providers' ability to ensure access for their patients; receive prompt payment for services
 - Potential delays in care and reimbursement
 - Increase customer service demand on SRS, Aging, JJA
- **Staff Layoffs: 13 positions (July 2010)**
 - Another 30+ funded positions held open or eliminated with turnover
 - Cumulative reduction in staffing of 15%
- **KHPA staff working with stakeholders to minimize the impact of reductions**
 - Meet with the Medicaid community to identify new approaches
 - Redirected unexpected contract savings realized over the last 3 months to the Clearinghouse



Key Factors in Developing Budget Recommendations for FY 2011

- **Uncertain revenue forecast**
- **Initial savings target for Governor's Budget is \$2 million SGF**
 - Target based on 5% of operations and SCHIP (not caseload)
- **Caseload costs rise significantly after Federal stimulus payments end in January 2011**
 - ARRA maintenance of effort restrictions on reductions in Medicaid eligibility also end in January 2011.
 - KHPA is not proposing any reductions in eligibility at this time
 - We are in the midst of an extended recession and levels of need are high
 - Reductions in eligibility would require coordination with other Medicaid agencies



Developing Budget Options for Governor's FY 2011 Budget

- Investments in care coordination and the medical home are deferred, but planning will accelerate
- Options reflect informal input from legislators
- Options are focused on improving program efficiency, payment equity, and patient safety
- Efforts to develop deeper spending reductions will require coordinated effort

Reduction Options Presented to KHPA Board

- Emergency Room Co-Payments in Medicaid
 - \$33,000 SGF/ \$93,000 AF
- Increase HealthWave Premiums
 - \$10 Increase saves \$350,000SGF/ \$1,727,880AF
 - \$20 Increase saves \$1.4M SGF/ \$5.5M AF
- Streamline Prior Authorization in Medicaid
 - \$243,000 SGF/ \$952,000 AF
- Align Professional Rates in Medicaid
 - \$3.6M SGF/ \$10.2M AF
- Mental Health Pharmacy Management
 - \$800,000SGF/ \$2.0M AF

Medicaid Transformation

- A constant process of improving efficiency
- Doesn't show up in budget because we can't use caseload savings in our reduced resource budget submission
- Completed 8 significant Medicaid Transformation changes in 2009 saving an estimated \$16.3M SGF/ \$30.6M AF
- This process continues every day, and will continue to result in decreased caseload growth
- Any consideration of reductions in payment rates, eligibility, or optional health services must be coordinated with other agencies.



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